

RICHARD  
RUSSELL'S

# DOW THEORY LETTERS

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LETTER 1218

**THE MARKET:** Last week saw *new highs* (again) in what I call my "**Big Four.**" My Big Four consists of the Dow, the S&P 500, the advance-decline ratio (NYSE) and my Primary Trend Index (PTI). Ah yes, but then there was that huge "one day reversal" (Jan. 23) with the Dow down 94 points on **record volume** of 683 million shares. "One robin doesn't make a spring," and one 94 point drop in the Dow doesn't signal a bear market. But if trouble is to start, it's got to start from somewhere. Was the January 23 reversal the beginning of trouble? Obviously, it's too early to tell. In fact, it could take a few weeks or longer.

As long as the "big four" continue to record new highs, there'll be no question about the status of the bull -- he's alive and well. But if one, two or three of the "big four" fail to make new highs, that will be meaningful and it could signal that the bull forces are beginning to unravel.

Since July the market has been plowing upward with a relentlessness that I can only term as "eerie." It was as if the upside of the market was literally guaranteed. It reminded me of one time when I was a young man back in 1958, at a time when the stock market was plowing skyward. The rise seemed relentless, and being puzzled, I asked one seasoned old veteran, "What do you think is happening?" He gave me a disdainful look and growled, "More buyers than sellers."

Analysts of late have been pooh-poohing the time-honored thesis that dividends are important or that yields are a factor in investing. However, IF a bear market emerges that attitude will change. Believe me, in a bear market (on the downside) there's nothing as treasured as a stock with a well-protected juicy dividend (in other words, a "safe" stock).

**USA TODAY:** Charlie Jones has a 401(k) program. Charlie decides that each month he'll put \$220 into his 401(k) plan. The 401(K) is managed by Hypo Securities, and Charlie has the option of deciding where the money is to be automatically invested. Charlie's instructions: "Put it in any of these three equity mutual funds." So each month the manager at Hypo picks one of the three mutual funds and in goes Charlie's money. Multiply this by tens of thousands and you've got a snap-shot of a large segment of today's market.

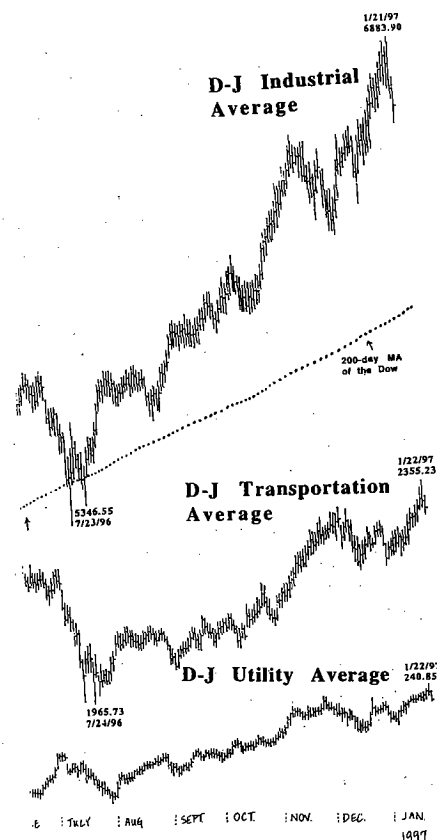
**GLOBAL SITUATION:** The situation is more "global" than any I have ever seen before. Everybody's watching everything. We're seeing weakness in the Japanese and European economies and continuing strength in the US economy. On top of that, Europe is dealing with the transition to a hoped-for single currency, a currency that many Europeans (particularly the Germans) don't like or trust. Consequently, (1) the dollar has turned extremely strong against both the yen and the European currencies, (2) US bonds have been helped by the strong dollar, and (3)

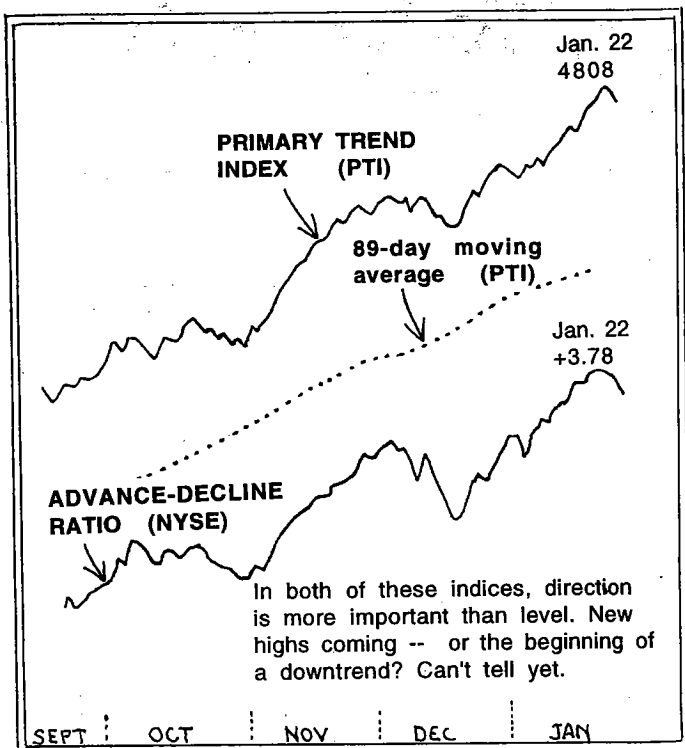
Jan. 17 DJIA 6826.94; PTI 4795; A-D Ratio +4.08  
Jan. 24 DJIA 6696.48; PTI 4798; A-D Ratio +3.71  
Dow Yield: 1.99%; Dow Price/Earnings: 18.1  
Dow 144-day MA: 6337; Dow 34-day MA: 6679  
Dow Times Book Value: 5.00; PTI 89-day MA: 4712  
Percentage of Undervalued Blue-chips: 3%  
Gold 200-day MA: 383.19; Gold-PTI: 159

the US stock market, which loves a strong bond market, continues due north. So at least up to now, all good things have come to Uncle Sam. One thought: the very strong dollar will probably cut into exports and perhaps slow the US economy (while hopefully spurring European and Japanese exports). This would suit the Fed just fine. The US economy might slow a bit with the Fed not having to do anything.

**BIG PICTURE:** Whatever else you can say about this market, one thing is clear -- the public is in it up to its eyeballs. In 1996 US equity funds attracted the enormous sum of \$223 billion; this was fully \$100 billion above the previous record year.

Furthermore, there are now 39 index funds, and the public is now pouring money into these funds at a frantic rate. One estimate is that since January 1, 15% to 20% of all money coming into mutual funds has gone into index funds. Evidently, the public is convinced that simply "buying the market" is the best way to protect or insure their future. ("Hey, this market is never going to do anything but move sideways or up.")





**THIS TIME IT'S DIFFERENT?** Anyone watching the tape (pardon me, their screen) might think that this market will never go down, maybe never even correct. Up to now, the upside action can only be described as relentless.

Meanwhile, the dividend yield, the book value multiples and the price/earnings ratio become more and more incredible. So there is a disposition in people's minds to think that this market is different from any that has ever existed before. And there is a rising chorus of people who firmly believe that we have entered a "new era."

And that's the way great market moves work -- invariably they have you believing that "this time it's different -- that this time there are underlying phenomena that cancel all previous history."

The last time I saw this was during 1973-74 when the Dow was heading down towards its "incredible" December 1974 low of 577.60. That huge decline took stocks far below "known value," and it brought out comments of "the Dow's heading for 250," "we're seeing the end of capitalism as we know it," and "it's curtains for Wall Street." Ah yes, those were the days.

Now we see the same phenomenon in reverse, and old timers are rubbing their eyes and shaking their heads. The fact is that we're seeing stocks selling at valuations that would not have been believed even five years ago. What's this - the Dow selling at over five times book value, Dow yields at 1.95%, the Dow selling at 19.5 times record earnings, and only 3% of blue-chip stocks in the undervalued group.

On the matter of yields, Hussman Econometrics [(810)553-8383] offers these wise words: "The reason why the trend of yields is so important is that it tells us much about the willingness of investors to bear risk. High yields are the compensation demanded by investors for bearing risk.

*Falling yields suggest an increasing willingness to tolerate risk."*

With yields on both the Dow and the S&P 500 in the 1.95% area, we can say that never before have investors been so willing to assume risk. And the question arises -- are investors stupid? Are they overlooking something? Or does the collective wisdom of the market "see something ahead" that as yet is not visible or at least not obvious?

Consider this -- T-bonds now yielding 6.8% are providing better than three times the yield offered by stocks. No, there must be something else in the wind. That something could be the desperation of today's baby boomers to "insure" that they'll have sufficient assets when they retire (more on this in the Notes & Quotes section).

Or then again, this may be one of those rare instances where a market move carries so far (either up or down) that it seems to take on "a life of its own." At some point the move "feels" relentless, unstoppable, almost surreal.

In the last Letter I wrote a piece on the earnings/yield for the Dow and the S&P. I concluded that the bond yield (now 6.82%) is well above the ridiculously "thin" projected earnings/yield on the S&P, which I estimate at 5.5%.

That 5.5% was based on a 15% increase in S&P earnings. However, suppose, just suppose, earnings for the S&P rise by less than 15% -- or suppose earnings actually decline? Is that possible? Well, I guess it is, at least according to Merrill Lynch as per this article from the January 15 *Investor's Business Daily*.

Again in its Jan. 9 "Strategy" report Merrill states, "With Japan and much of Asia and Europe mired in an investment slump, the US durables cycle has been the

primary engine of global expansion. The consensus expects recoveries in Europe and Asia to join the US, creating a chorus of growth in '97. Our work suggests another possible outcome: growth in the US decelerates into a still sluggish G-7 world."

**COMMENTS:** With total dividends of 133.03, the Dow is selling at a never-seen-before multiple of 51 times dividends (over 35 used to be considered dangerous). And I wonder, is Alan Greenspan playing a dangerous game? Obviously, Greenspan doesn't want to be the pin that pricks the stock market balloon. And at these heights, the market could be very vulnerable to a Greenspan "prick."

So what's Greenspan to do? He can hint that prices may be, er, on the high side. And he has. Greenspan has also said that it's OK for the stock market to go down as long as the decline doesn't affect the economy as in '87 (dream on, Alan).

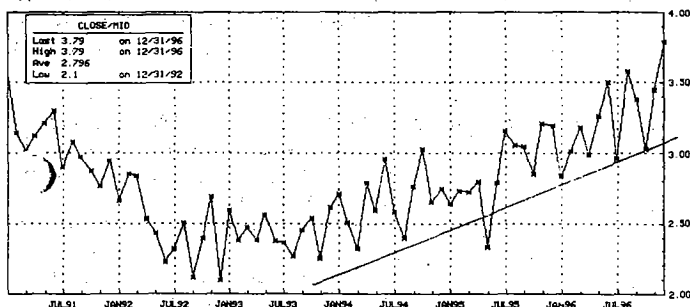
But Cheryl Katz, senior economist at Merrill Lynch in New York, said wage gains have not been large enough to put upward pressure on prices. Companies are eating the higher labor costs instead of passing them on to consumers, she added.

"At this stage in the business cycle, it seems evident that even with this wage creep, companies have not been able to sustain price increases, mostly because of global competition," Katz said. "Rather, it has been a negative for companies in their profit margins. There has been a profit slowdown in 1996, and profits will probably continue to slow down in 1997."

Liro said the biggest curb on inflation has been the rising dollar. Less expensive imported goods have made it hard for U.S. firms to raise prices. He also thinks corporate profits will be squeezed in 1997.

The area Greenspan really is watching is the rate of wage increases. This chart (courtesy of *Bloomberg*) shows the rate of increase in hourly earnings (year over year). It's clear, the trend is up and wages are one of the basic components of inflation.

RATE GRAPH for US HOURLY EARNINGS TOTL YOY%  
RANGE 1/11/91 TO 12/31/96 PERIOD 6 (D-U-M-Q-Y)



IBD tracks stock splits for the overall market in 30-day increments. Recently they tallied 171 splits, the highest in five years. Excessive stock splits often occur near or around stock market tops. We'll see if it means anything this time around.

**INVESTMENT POSITION:** He's the oldest and largest bull in history. Through thick and thin, through non-confirmations and divergences, through overvaluations and beyond historical precedents -- he's still in the box.



Yes, one of these days he's going to topple over from old age or sheer exhaustion, but not this week. I'm watching for discrepancies, signs of weakness, breadth divergences, dearth of new highs -- you name it. So far, the only slight hint of trouble that I see in the price action is the extreme selectivity of the market. But let's not get too cute -- the fact is that I won't be convinced of trouble until my PTI turns down.

Those who are buying stocks here are in reality betting that expensive stocks will become "more expensive." That's been the story for the last two years. Note on the page 1 statistics that the "Percentage of Blue-Chip Stocks in the Undervalued Group" has dropped to a low of 3%. Of the 350 blue-chip stocks monitored closely by *IQ Trends* of La Jolla, only 11 are now undervalued. This is the lowest percentage since the early 1960s when this study was first started. What can I say? Buy 'em at your risk. Caveat emptor. If you already own 'em, you might as well hold them until I receive legitimate sell indications. Oh yes, keep your eyes on the bonds. This market is extremely sensitive to any change in rates.

**BREADTH:** Joe Granville and I have often disagreed in the past, but we've always agreed on one thing -- the advance-decline ratio is the single most important indicator in the technician's arsenal.

You can manipulate a stock or even a group of stocks, you can manipulate the entire market for maybe a day or so (via news or a shocking report), but you can't manipulate ALL the stocks on the NYSE on a trend basis.

The advance-decline ratio traces the advancing or declining tendencies of the majority of stocks on the NYSE. Since this is an all-inclusive indicator, it is a good proxy for the entire NYSE. The

Dow consists of only 30 high-cap blue-chip stocks. They are frequently referred to as the "generals," while the A-D ratio can be referred to as the "troops."

In the majority of cases where there's a top forming in the stock market, we see divergence or a non-confirmation between the usually stronger Dow and the usually lagging A-D ratio.

Let's review a few major tops. In 1937 the Dow and the A-D recorded highs in January, then headed down. The Dow hit a new high in March, but this high was unconfirmed by the A-D. Both indicators continued down to June, whereupon another rally carried into August. On the August rally the Dow advanced to within 4 points of its March high, but the A-D failed badly. This was followed by a total market collapse to a November low.

In 1946 both the Dow and the A-D recorded **simultaneous tops** in May. They then headed down together in a bear market collapse that ended during the fourth quarter.

The Dow and the A-D recorded highs in May of 1965. A sharp decline carried into June, followed by a big Dow rally to the end of the year. In 1966 the Dow traced out two higher highs during January and February, but the A-D refused to confirm either. The market then embarked on a bear market collapse that bottomed in October.

1968 saw a high speculative rise in technology stocks. Both the Dow and the A-D hit **simultaneous highs** in November. This was followed by a costly smash that ended temporarily in May of 1970.

The year 1972 saw breadth sliding all year, even though the Dow continued to advance. The year 1973 opened with both the Dow and the A-D at their best levels of that year. The rest of '73 proved to be a wipe-out for the market, despite a sudden unconfirmed Dow spurt in the third quarter.

The Dow and the A-D hit highs in March of 1987. A minor decline ensued, followed by a violent Dow advance to August. The August Dow high was not confirmed by the A-D ratio. The Dow attempted one more feeble rally, again unconfirmed by the A-D, and this was followed by the famous "crash of '87" in which the Dow lost 508 points in a single day.

Conclusion: in the majority of cases, a non-confirming or diverging A-D ratio will provide ample warning of trouble ahead. But in a few cases the Dow and the A-D topped out simultaneously. The simultaneous top-out seems to occur during extremely speculative markets such as 1946 and 1968.

When the current bull market tops out, it would not surprise me to see (in retrospect) that the Dow and the A-D ratio (and perhaps many other averages and indicators) topped out simultaneously. In other words, I would not bet on the usual non-confirmation or early warning signals.

**BOOKS:** Robert Prechter has just published a fine (and very attractive) book containing literally a carload of information on the markets, most of it having to do with the Elliott Wave principle. The book contains valuable material by Charles C. Collins, from that genius, Hamilton Bolton, from the incomparable A. J. Frost and from your editor. The book is entitled, "The Elliott Wave Writings of A. J. Frost and Richard Russell." Excellent biographies are included (I was amazed at how much information Bob has collected), plus invaluable articles by Hamilton Bolton. Everything I've ever written on Elliott also appears in the book. I recommend this book for all serious market students, and I commend Bob Prechter for his tireless work in educating investors regarding the market. If you want to order this book, call Elliott Wave International at (800)336-1618.

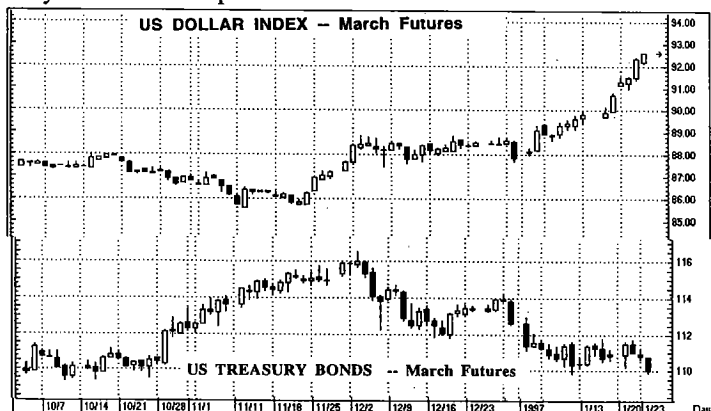
A second book entitled, "The Agile Investor: Profiting From the End of Buy and Hold" has just been published. The book was written by Stephen Leeb, a very smart guy whose ideas and newsletter I have followed for years. Stephen's thesis is that we

(and the world) over the next five to 10 years will be moving into an era of high inflation of maybe 10% to 20%. It's because the "have-nots" of the world are about to demand much faster growth. Leeb thinks that government leaders across the globe will give in in order to keep their jobs. (You don't believe it? Just look what Clinton will do to keep his job.) Leeb expects economic growth to climb to 4.5% or higher in coming years, and this will set the stage for higher inflation, inflation which will crest at 20% within the next decade.

What to do? Says Leeb, dump stocks of large consumer-product and service companies and buy energy and gold shares instead. Bet on real estate and various small-cap stocks.

What does Russell think of all this? Well, it's a hell of a contrary opinion, and it would upset an awful lot of apple carts if it happens (which is what the markets love to do). Can it happen? Anything can happen. Gold is in the dumps, but on the other hand lots of wealthy people are buying big expensive diamonds and big expensive houses -- and they're not stupid. But why guess, if the Leeb thesis is going to happen, we'll get hints of it from the markets.

**NOTES & QUOTES:** Last week the **dollar** hit a 28-month high against the German D-mark; the dollar also rose against most other currencies including the yen which is now at 119 to the dollar. Treasury Secretary Rubin reaffirmed his support for a strong dollar, and this came against a rising global demand for dollars. Of course Asia and Europe like a strong dollar -- it renders their currencies "cheaper" and greatly aids their exports. A strong dollar is also a plus for US bonds, at least as far as foreign holders of US bonds are concerned. However, since their December high of 116, the bonds have lost over 6%, equal to a full year's interest income. The big question, of course, is whether the yield on the 30-year T-bond will push above the critical 7% level.



As I've stated many times, almost every nation in the world is trying to expand its economy. One way of doing this is by expanding their money supply. Here are some figures: 12-month growth (courtesy of *Grant's Asia Observer*) -- China, 26.8%; India, 14.7%; Indonesia, 26.1%; Maylasia, 30.9%; Philippines, 20%; Thailand, 6.6%; Mexico, 24.3%.

The inauguration came and went. Most gave the president a "C" for content, but he cut his usually windy speech down to a still-long 22 minutes, which was a blessing. "Government is not the problem, and government is not the solution, we, the American people, are the solution." That was typical of the speech, and if you can get anything out of that statement, you're ahead of me.

The US has had 41 presidents. Only 15 of them have served a second term, and Clinton is one of the 15. What can a president do? The president has the "bully pulpit," and he can lead the nation if he has the guts, the inclination and the ability. A president can veto legislation, he can conduct foreign policy, he can pick members of his cabinet and he can name Supreme Court justices

(all must be approved by the Senate). But the president can't raise taxes, enact law, punish criminals, or spend public funds. He can, however, pardon criminals. With it all, the president's power to act is quite limited. Harry Truman laughed when he talked of Eisenhower taking over the presidency, "Poor Ike, it won't be a bit like the Army. He'll sit here and say, 'Do this, do that!' And nothing will happen."

Most "great" presidents have had to deal with crises either on-going or at the start of their presidency. Clinton really has no crisis to deal with, but chances are that before his term is out he'll have one; my guess -- the stock market and the economy (just a guess, mind you).

Headline in the Jan. 14 *WSJ*: "Money Pours Into Mutual Funds At Frantic Pace So Far in January." What's happening, why the hysteria to buy stocks? Joseph Nocera, editor at large of *Fortune* magazine, thinks he has the answer: "The more you talk to investors, the more you realize that they're chasing hot stocks and hot tips in an effort to make money fast. In other words, they're acting just like the human beings they are. As a result, more of these investors won't do as well as they hope. Investing well is difficult -- so difficult that 80% of the nation's fund managers don't beat the market averages . . . yet more and more baby boomers are depending on the market to finance retirement . . . There's a reason for the madness -- and it's not greed. Rather, it's a kind of low-level desperation, as baby boomers, sensing that retirement is just around the corner, have begun playing catch-up. For most of their lives they've been borrowers, and they still are. Consumer debt this past year approached a record \$1.2 trillion. Now baby boomers are afraid that time is running out. And in their anxiety, they are taking bigger risks. They're right to be anxious. Time is running short. But it's asking an awful lot to expect the stock market to save them now. For most, it seems far more likely that they'll look back someday on this greatest of all bull markets and realize that it wasn't all that they had hoped for."

Does Wall Street love a bull market? Better believe it. This year, New York Wall Street firms alone will be passing out \$8.1 billion in bonuses (above salaries), topping '95's record of \$6.2 billion.

The German newspaper, *Die Woche*, ran a poll and found that 73% of Germans want a referendum on whether the D-mark should be replaced by the Euro. Well over 56% are against introduction of a single currency. A total of 11% want the upper and lower houses of Parliament to vote on the issue, while 12% would be satisfied if the government alone decided. Only 15% of those polled thought the Euro would be as "hard" as the D-mark, compared with 74% who believe the opposite.

Is the quality of life in the US deteriorating along with public morals? I think it has. My own feeling and observations are that people today are obsessed with money. Money runs everything. In last week's *NY Times* magazine, an article entitled "How Football Got Sacked" notes that attendance at games has fallen off as has TV viewing. The culprit is free agency plus greed. Teams move to where the best deal is, players with no attachment to their teams move to where there's a better offer. Top teams one year fall apart the next. Right now 19 cities in the US are building stadiums at a cost of \$200 million or more each, and many of these new stadiums are being built in order to lure teams to new ground. **Note:** According to Chicago based Team Marketing Report industry letter, during the 1990s pro sports tickets have been increasing at a 7 to 8% annual rate. No inflation? Tell me about it.

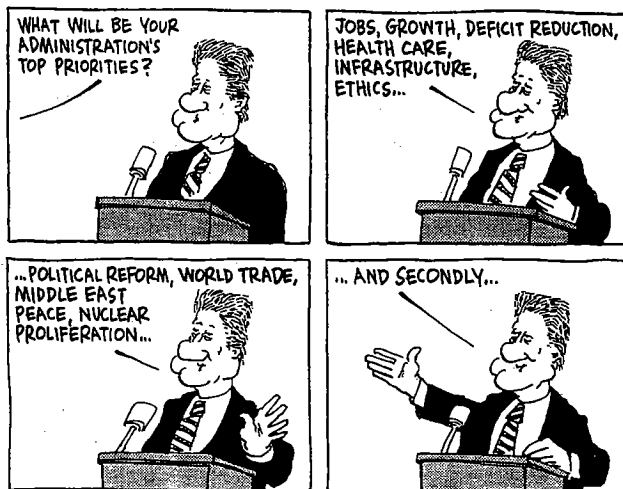
In the same issue of the *Times* we find an article entitled "Why Hollywood Makes Movies by the Numbers." Edward Zwick (he directed "Legends of the Fall," "Glory," "Courage Under Fire") complains, "In the 10 years since my first film came out and now, I see how much the landscape has changed. The stakes have grown so high, with each film a start-up business of \$50 million to \$100 million that succeeds or fails in a single weekend." He says it's become a matter of not what you make that matters, it's how much you make.

In almost every area it's money that determines what happens. Even art is defined in terms of how much a particular picture will bring at auction. How good is an artist? "I dunno, what did his last picture sell for?"

Yes, I'd say that I've never seen a time when there was so much emphasis on money. "Who is American's richest man?" "How much is this movie bringing in?" "How much is that CEO earning?" "What's the Best List of Stocks to Buy Now?"

And then there's politics. Says Bill Schneider, the American Enterprise Institute political scholar, "Scandal only confirms people's worst suspicions about why politicians do what they do. They're too concerned with personal gain, too concerned with power, they're feeding their own appetites. It's one reason why confidence in government has never recovered."

I do think that morality and the general quality of life in the US is deteriorating. The obsession with money, power and gain has changed the nation, changed it from the place where I grew up as a boy. And one thing is certain, as far as I'm concerned -- we have the perfect president for our times. He blows with the wind, he cheats on his wife, he lives by the polls, he promises anything and everything, and despite his obvious intelligence, he's distrusted by a large percentage of the populace (who, ironically voted for him anyway).



**Fed Chief:** Latest on Alan Greenspan: Why did it take him 10 years to get around to marrying his girl friend? Answer: Because it took her 10 years to figure out what he was talking about?

**Salaries:** Brett Favre, Green Bay quarterback, is asking for \$7.5 million a year plus a \$10 million signing bonus . . . John Travolta has five movies lined up for which he'll be paid \$20 million each . . . the cast of Seinfeld is asking for \$1 million a piece for EACH episode . . . Catcher Mike Piazza of the LA Dodgers just signed a two-year contract for \$15 million . . . Warner Bros. is reportedly desperate to make "Lethal Weapons 4." Mel Gibson has said "no" to this project for years, but he could be changing his mind. Warner is reportedly offering Gibson a \$50 million up front or as much as one-third of the back-end. Greed? Not really, it's just capitalism in action. What's anyone worth? He or she is worth whatever the market will bear.

Never think you know what someone is worth. Some wealthy individuals spend their days in blue jeans and T-shirts and drive old Chevys while many a phony sports an Armani suit and a Sulka shirt while spinning about town in a Ferrari. Along these lines, it was widely rumored that Jackie O, aided by her live-in boy friend, international diamond dealer Maurice Templesman, was worth upwards of \$200 million. But it turns out that Jackie was worth only \$43.7 million, certainly a healthy amount but far less than the \$200 million that she was widely rumored to be worth.

Over the holidays, no less than 40 new films opened. The massive outpouring of new "product" is driving Hollywood nuts. The economics of making a movie are becoming more and more dicey. In the hopes of guaranteeing a blockbuster, studios are paying a handful of stars huge money. But when a \$20 million star doesn't bring in the gravy, it's a disaster. And there are too many disasters coming through for Hollywood studios.

**Touch:** Researchers are discovering the amazing advantages of touch. The caress of another person evidently releases hormones that can ease pain, soothe one and actually clear the mind. A decade ago, child psychologist, Tiffany Field, showed that premature infants who were massaged for 15 minutes three times a day gained weight 47% faster than preemies given standard intensive care. These babies weren't eating more, they were simply ingesting their food more efficiently. Being touched has healing powers, and researchers have found that massage can ease the pain of burn victims and boost the immunity of AIDS patients. So don't be squeamish, don't be embarrassed -- if you have the money and the inclination, take my advice and get a massage once or twice a week (I do it once a week). I first got interested when my two youngest kids always demanded, "Dad, give me a massage." My six-foot-two Ryan (age 18) loves to have his head rubbed, while his 16-year-old sister, Lauren, loves to have her back rubbed. Once I start rubbing, they won't let me stop. It can go on for hours.

**Flat Tax?** This from economist Milton Friedman over a year ago regarding the chances of the US going to the flat tax: "There is no chance that Congress will enact this tax system" over the ferocious opposition of Washington's army of special interests. In a contest between Washington and America, Washington always prevails.

We got tired of listening to him, so why would we want to read him? Clinton's book, "Between Hope and History" has been a bust, and now the prez is staging a fire sale. Originally priced at \$16.95, the book will be on sale at the Washington inauguration for the bargain price of \$5. The inaugural committee bought 50,000 copies of the book from Random House. Advice to President Clinton -- don't write any more books, once is enough.

**Statistic:** One out of every eight Americans now lives in California.

The annualized charge-off rate for credit cards in November rose to 6.07% -- up 40% from November '95. This is the rate of write-offs for uncollectible debts. November was the first time the rate climbed over the 6% level since the '92 recession peak of June 1992. You have to wonder what would happen if a recession hits.

One of the interesting manifestations of the Paula Jones case against the president is that feminists have completely abandoned Ms. Jones. Why? Well, because the feminists think (or thought) that Clinton was their guy, so how could they side with Jones? But Barbara Ehrenreich in the *NY Times* (Jan. 17) suggests otherwise. She notes the Clintons "charmed" feminists at the White House, but then complains that Clinton signed the welfare bill. Warns Ehrenreich, "Feminists were among American progressive forces to fall for the fantasy that they had a friend in the White House . . . to regain moral consistency, feminists and progressives will have to end their co-dependency on Mr. Clinton."

Lakeside School in Seattle is a private high school that had the amazing luck of having graduated Bill Gates, his partner Paul Allen and the McCaw brothers, Bruce, Craig, John and Keith. Craig McCaw, class of '68, built his family's cable TV business into the largest cellular phone company in the nation. McCaw, Allen and Gates announced last week that they will match gifts to their high school on a 2 to 1 basis up to \$30 million. The school is trying to raise \$46 million for building and scholarships. **Russell comment** to parents: I have always believed that the caliber of kids in school or college was as important as the caliber of the school or college itself.

To me, there is nothing more agonizing than the loss of a child. I have four healthy kids (Kids? Ages 16 to 40.) and one autistic daughter. A severely autistic kid is close to losing a child. When I

realized the situation, my first thought was, "How could this happen to me?" But you learn to live with this tragedy.

Two weeks ago son Ryan left for Berkeley -- in a pouring rain. Ryan was driving out to the desert to pick up a schoolmate, then he was heading up to Berkeley. Before he left I gave him a few safety instructions, such as if you break down at night on the freeway, don't stay with your car -- get out and hide by the side of the road until either it's light or until the Highway Patrol comes along (ah, if Bill Cosby's son had only known that). I guessed Ryan got to Berkeley OK, but he didn't call for eight days, so we weren't absolutely sure (we tried, but we couldn't get in touch with him). When Ryan finally called I explained that I want him to call when he arrives after a long trip. "Right, dad, I'll remember that." Ryan will be 19 in two months. I thought back a good many years. When I was Ryan's age I had already been in the Army for a year, and I can only imagine how my own parents worried. Then I soothed myself with the following thought: "Well, I lived through WWII so I guess Ryan can survive Berkeley and beyond." I guess at a certain point you have to stop worrying about your kids. I'm not sure I'm there yet.

**Helen Gurley Brown**, editor of *Cosmopolitan* magazine for the last 31 years, is finally stepping down. Brown literally changed the face of women's magazines. And rarely has a magazine been so closely connected with one person. Brown told women about themselves, said women were allowed to enjoy sex and in general dealt with the things that really interested women. I thought Brown's "rules" or observations were interesting -- they were certainly worth tens of millions of dollars for one of America's leading and most influential women's magazines.

In her final issue of *Cosmopolitan* -- due out this month -- Ms. Brown uses her regular editor's note to remind readers of her basic tenets which she describes as "indigenous to Cosmo." Below is a sampling.

**MEN ARE NOT THE ENEMY** A good man, worthy of your love, is out there ... we'll find him.

**SEX IS ONE OF THE THREE BEST THINGS THERE IS** Bless the man or men who bring you this incredible pleasure.

**SUCCESS** Loving work is almost as important as loving a man, maybe as.

**ALL CALORIES COUNT** There is no free calorie even in lettuce.

**EXERCISE IS YOURS** Testimonial: I'm seventy-five, have exercised an hour and a half a day ruthlessly for too many years to count. I haven't had a cold in ten, missed a day of work (for illness) in twenty, I'm skinny, I eat ... it's all exercise.

**PRECIOUS METALS:** At top right are two items that I clipped from last week's publications. Sentiment towards gold is gloomy, and even the intrinsic value of gold itself is questioned. This brand of black-pessimism is the type of sentiment we should expect at a bear market bottom. "The Russians are coming, the Russians are coming -- the central banks are selling!" "Gold, it's going to 200, no, it's going to zero!" "Help, gold is no longer worth anything!"

The following is from the London *Financial Times*: "Sustained selling by some European central banks has been largely responsible for the recent collapse in the gold price. The central banks sold about 150 tonnes of gold between October and December ... European countries are making substantial gold sales from their reserves to help meet the criteria for European monetary union ... IMF statistics on countries' reserves to be released later this year, may clarify which countries are involved."

All right, does that answer the question as to why gold is down? Not entirely, of course but it helps. Large interests may hesitate to buy gold when they know that a number of central banks are active sellers.

NEXT MAILING: Feb. 12, 1997

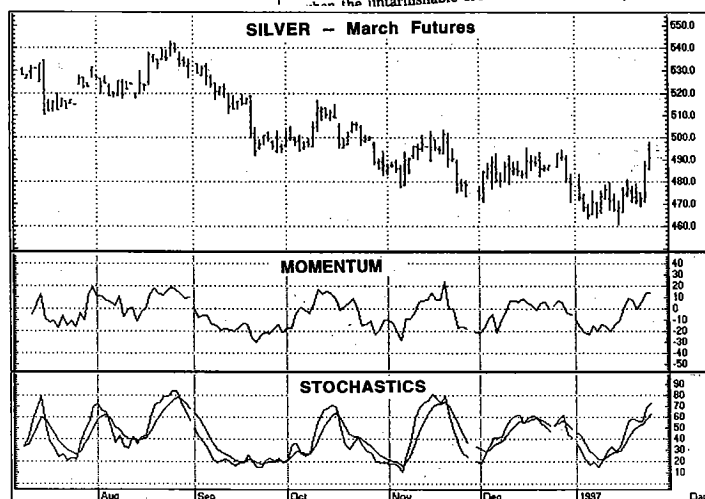
## EVEN MIDAS MIGHT NOT TOUCH THIS MARKET

A central-bank sell-off could depress the gold market further

**MARKET BEAT / TOM PETRUNO**

**If It's Good as Gold, How Good Is That?**

It's a good bet that no pharaoh, king or emperor who ever coveted gold--and didn't they all?--could have imagined a day when the untarnishable ore would be viewed



The question, of course, is -- "when or where is the bottom?" Unfortunately, the bottom of any bear market is always recognized *in retrospect*. However, there is a logical pattern. To form a bottom in any item, first downside momentum must ebb, then momentum must reverse, then the item has to start up. Next the item usually "tests" its lows, then there's a second rally which will test the first rally peak. If the first rally peak is bettered -- at that point it is reasonable to assume that a bottom has formed.

I've included here a daily chart of the March silver futures contract. From a low of 4.61 on January 15, silver rallied to a high of 4.98 on January 24 -- and that's impressive. Silver can lead the precious metals, and for this reason (and because of the extreme pessimism regarding the precious metals) I feel the picture is becoming more interesting. Note also that momentum and the stochastics on silver have turned bullish.

**LATE NOTES:** Big down-day last Thursday, and further weakness Friday. IF Monday is down, it will be three downers in a row, often a significant series (this is written before the Monday close). Note: three consecutive declining days following a long advance often signifies a change in trend.

The ingrained bullishness of both the public and the great majority of "experts" has bordered on arrogance. In fact, I can't remember seeing anything like the almost "eerie" bullish sentiment of the last few months.

Nevertheless, we old-timers have learned to let the market tell its story in its own way. When a market develops the kind of **upside momentum** that this one has, it doesn't tend to reverse in a day or even a week. Actually, a trading range here wouldn't surprise me. Then a break out of the trading range would signal the next important direction. But the **big question** -- **has the bullish continuity been broken?** By the next Letter we might have the answer ... Super Bowl indicator? Forget it, coincidences don't last forever ... Better advice -- "Keep your eye on the PTL."